COMMERCIAL FEDERAL CORP
Form 10-Q
August 14, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly period ended June 30, 2002

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-11515

COMMERCIAL FEDERAL CORPORATION
(Exact name of registrant as specified in its charter)

Nebraska	47-0658852
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification Number)
13220 California Street, Omaha, Nebraska	68154
(Address of principal executive offices)	(Zip Code)

(402) 554-9200
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO ____

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of Each Class	Outstanding at August 9, 2002
Common Stock, Par Value $.01 Per Share	45,223,293

COMMERCIAL FEDERAL CORPORATION

FORM 10-Q

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COMMERCIAL FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

PART I. FINANCIAL INFORMATION
Item 1. CONDENSED FINANCIAL STATEMENTS

(Dollars in Thousands) ASSETS	June 30 2002
	(Unaudit
Cash (including short-term investments of $133 and $590)	$ 158,
Investment securities available for sale, at fair value	1,225,
Mortgage-backed securities available for sale, at fair value	1,818,
Loans and leases held for sale, net	395,
Loans receivable, net of allowances of $103,722 and $102,359	8,225,
Federal Home Loan Bank stock	264,
Real estate, net	52,
Premises and equipment, net	150,
Bank owned life insurance	221,
Other assets	475,
Core value of deposits, net of accumulated amortization of $58,170 and $54,900	25,
Goodwill	162,
Total Assets	$ 13,175,
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Deposits	$ 6,243,
Advances from Federal Home Loan Bank	5,254,
Other borrowings	612,
Other liabilities	306,
Total Liabilities	12,417,
Commitments and Contingencies	
Stockholders' Equity:	
Preferred stock, $.01 par value; 10,000,000 shares authorized; none issued	
Common stock, $.01 par value; 120,000,000 shares authorized; 45,412,900 and 45,974,648 shares issued and outstanding	
Additional paid-in capital	66,
Retained earnings	752,
Accumulated other comprehensive loss, net	(61,
Total Stockholders' Equity	758,
Total Liabilities and Stockholders' Equity	$ 13,175,

See accompanying Notes to Condensed Consolidated Financial Statements.

COMMERCIAL FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

(Dollars in Thousands Except Per Share Data)	Three Months Ended June 30,		Six Months Ende June 30,	
	2002	2001	2002	200
Interest Income:				
Loans receivable	$ 150,037	$ 174,347	$ 302,076	$ 355,
Mortgage-backed securities	23,806	26,876	50,664	53,
Investment securities	19,328	19,640	38,447	36,
Total interest income	193,171	220,863	391,187	444,
Interest Expense:				
Deposits	44,983	82,661	93,787	175,
Advances from Federal Home Loan Bank	60,611	57,703	119,505	113,
Other borrowings	6,911	5,218	12,646	8,
Total interest expense	112,505	145,582	225,938	297,
Net Interest Income	80,666	75,281	165,249	147,
Provision for Loan Losses	(5,540)	(6,437)	(12,129)	(10,
Net Interest Income After Provision for Loan Losses	75,126	68,844	153,120	136,
Other Income (Loss):				
Retail fees and charges	13,913	13,647	26,321	25,
Loan servicing fees, net	2,819	6,339	5,655	12,
Mortgage servicing rights valuation adjustment	(16,607)	(172)	(16,078)	(5,
Gain (loss) on sales of securities and changes in fair values of derivatives, net	13,583	(1,326)	8,740	7,
Gain (loss) on sales of loans	3,538	250	6,977	(1,
Bank owned life insurance	3,694	3,676	7,295	7,
Real estate operations	(2,194)	(1,222)	(3,591)	(1,
Other operating income	8,721	8,161	16,396	16,
Total other income	27,467	29,353	51,715	60,
Other Expense (Gain):				
General and administrative expenses -				
Compensation and benefits	28,351	25,206	56,846	51,
Occupancy and equipment	9,270	9,197	18,596	19,
Data processing	4,397	4,421	8,831	9,
Advertising	4,330	2,579	7,245	5,
Communication	3,173	3,361	6,229	6,
Item processing	3,622	4,343	7,083	8,
Outside services	2,983	3,262	5,965	6,
Other operating expenses	5,775	7,666	12,330	13,
Exit costs and termination benefits	--	(3,952)	--	(1,
Total general and administrative expenses	61,901	56,083	123,125	117,
Amortization of core value of deposits	1,637	1,914	3,270	3,
Amortization of goodwill	--	2,083	--	4,

Total other expense	63,538	60,080	126,395	125,
Income Before Income Taxes	39,055	38,117	78,440	70,
Provision for Income Taxes	11,522	11,767	22,924	21,
Net Income	$ 27,533	$ 26,350	$ 55,516	$ 48,

COMMERCIAL FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS (Continued)
(Unaudited)

(Dollars in Thousands Except Per Share Data)	Three Months Ended June 30,		
	2002	2001	
Weighted Average Number of Common Shares Outstanding Used in Basic Earnings Per Share Calculation	45,342,680	51,171,838	
Add Assumed Exercise of Outstanding Stock Options as Adjustments for Dilutive Securities	869,716	433,945	
Weighted Average Number of Common Shares Outstanding Used in Diluted Earnings Per Share Calculation	46,212,396	51,605,783	
Basic Earnings Per Common Share	$ .61	$ .51	$
Diluted Earnings Per Common Share	$ .60	$ .51	$
Dividends Declared Per Common Share	$ .09	$ .08	$

See accompanying Notes to Condensed Consolidated Financial Statements.

COMMERCIAL FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

(Dollars in Thousands)	Three Months Ended June 30,	
	2002	2001
Net Income	$ 27,533	$ 26,35

Other Comprehensive Income (Loss):		
Unrealized holding gains (losses) on securities available for sale	67,107	(17,93
Fair value adjustment on interest rate swap agreements	(72,427)	34,48
Fair value change on interest only strips	(1,475)	1,48
Reclassification of net losses (gains) included in net income pertaining to:		
Securities sold	(11,698)	(1,63
Amortization of fair value adjustments on interest rate swap agreements	508	50
Other Comprehensive Income (Loss) Before Income Taxes	(17,985)	16,91
Income Tax Provision (Benefit)	(4,025)	5,76
Other Comprehensive Income (Loss)	(13,960)	11,15
Comprehensive Income	$ 13,573	$ 37,50

See accompanying Notes to Condensed Consolidated Financial Statements.

COMMERCIAL FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(Dollars in Thousands)	Six Month June
CASH FLOWS FROM OPERATING ACTIVITIES	2002
Net income	$ 55,516
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Amortization of core value of deposits	3,270
Amortization of goodwill	-
Provision for losses on loans	12,129
Depreciation and amortization	9,090
Amortization (accretion) of deferred discounts and fees, net of premiums	7,967
Amortization of mortgage servicing rights	13,419
Valuation adjustment of mortgage servicing rights	16,078
(Gain) loss on sales of real estate and loans, net	(7,640)
Gain on sales of securities and changes in fair values of derivatives, net	(8,740)
Proceeds from sales of loans	1,169,649
Origination of loans for resale	(151,184)
Purchases of loans for resale	(1,202,784)
Increase in bank owned life insurance, net	(6,789)
(Increase) decrease in interest receivable	(533)
(Decrease) increase in interest payable and other liabilities	(5,148)
Other items, net	(136,878)
Total adjustments	(288,094)
Net cash used by operating activities	(232,578)
CASH FLOWS FROM INVESTING ACTIVITIES	

Purchases of loans	(246,787)
Repayment of loans, net of originations	211,311
Proceeds from sales of mortgage-backed securities available for sale	18,147
Principal repayments of mortgage-backed securities available for sale	488,634
Purchases of mortgage-backed securities available for sale	(461,982)
Maturities and principal repayments of investment securities available for sale	21,414
Proceeds from sales of investment securities available for sale	733,395
Purchases of investment securities available for sale	(802,596)
Purchases of Federal Home Loan Bank stock	(20,542)
Proceeds from sales of Federal Home Loan Bank stock	10,393
Proceeds from sales of real estate	23,289
Payments to acquire real estate	(2,082)
Dispositions (purchases) of premises and equipment, net	(703)
Other items, net	(10,986)
Net cash (used) provided by investing activities	(39,095)

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COMMERCIAL FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
(Unaudited)

(Dollars in Thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES	
Decrease in deposits	$
Proceeds from Federal Home Loan Bank advances	
Repayments of Federal Home Loan Bank advances	
Proceeds from securities sold under agreements to repurchase	
Repayments of securities sold under agreements to repurchase	
Proceeds from issuance of other borrowings	
Repayments of other borrowings	
Purchases of swaption agreements	
Payments of cash dividends on common stock	
Repurchases of common stock	
Issuance of common stock	
Other items, net	
Net cash provided by financing activities	
CASH AND CASH EQUIVALENTS	
Decrease in net cash position	
Balance, beginning of year	
Balance, end of period	$

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid (received) during the period for:	
Interest expense	$
Income taxes, net	
Non-cash investing and financing activities:	
Loans exchanged for mortgage-backed securities	
Loans transferred to real estate	
Loans to facilitate the sale of real estate	
Common stock received in connection with employee stock option plan, net	

See accompanying Notes to Condensed Consolidated Financial Statements.

COMMERCIAL FEDERAL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2002
(Unaudited)

(Columnar Dollars in Footnotes are in Thousands Except Per Share Amounts)

A. BASIS OF CONSOLIDATION AND PRESENTATION:

The unaudited consolidated financial statements are prepared on an accrual basis and include the accounts of Commercial Federal Corporation (the "Corporation"), its wholly-owned subsidiary, Commercial Federal Bank, a Federal Savings Bank (the "Bank"), and all majority-owned subsidiaries of the Corporation and Bank. All significant intercompany balances and transactions have been eliminated. Certain amounts in the prior year periods have been reclassified for comparative purposes.

The accompanying interim consolidated financial statements have not been audited by independent auditors. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary to fairly present the financial statements have been included. The consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2001. The results of operations for the three and six months ended June 30, 2002, are not necessarily indicative of the results which may be expected for the entire calendar year 2002.

B. IMPLEMENTATION OF SFAS NO. 142 "GOODWILL AND OTHER INTANGIBLE ASSETS:"

Effective January 1, 2002, the Corporation adopted the provisions of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142") which superceded APB Opinion No. 17 "Intangible Assets." The provisions of SFAS No. 142 require a change in accounting for goodwill such that upon initial adoption, amortization of goodwill ceases, and that goodwill be evaluated for impairment as of January 1, 2002, at the operating segment unit level. Identifiable intangible assets continue to be amortized over their useful lives and reviewed for impairment under SFAS No. 142. Beginning January 1, 2002, goodwill totaling $162,717,000 is no longer amortized to expense. Instead, goodwill will be evaluated at least annually for impairment or more frequently if events or changes in circumstances indicate that the asset might be impaired.

In 2002, the Corporation contracted with an independent appraisal company to determine the fair value of the Corporation's reporting units. During the quarter ended June 30, 2002, the Corporation completed its transitional impairment test on its goodwill as of January 1, 2002, as required by SFAS No. 142. The fair value of each of the Corporation's reporting units exceeded their carrying value so allocated goodwill of each reporting unit is not impaired. Therefore, no impairment loss was recognized as a result of this test.

The following table sets forth the total carrying amount of goodwill by operating segment as of and for the six months ended June 30, 2002:

Segment	Balance January 1, 2002	Transitional Impairment Losses	Balance June 30, 2002
Commercial	$ 93,553	$ --	$ 93,553
Mortgage	3,488	--	3,488
Retail	45,249	--	45,249
Treasury	20,427	--	20,427
Total	$ 162,717	$ --	$ 162,717

No changes impacted the allocation of goodwill by operating segment for the three and six months ended June 30, 2002.

Core value of deposits is the only intangible asset of the Corporation subject to amortization effective January 1, 2002. The following table sets forth the actual amortization expense for core value of deposits for the first six months of 2002 and the estimated amortization expense for the last six months of 2002 and thereafter:

	Amortization Expense
Six months ended June 30, 2002	$ 3,270
Six months ended December 31, 2002	3,098
For the year ended December 31, 2002	6,368
For the years ended December 31:	
2003	5,533
2004	4,402
2005	3,875
2006	3,233
2007	2,719
2008	2,603
Total	$ 28,733

B. IMPLEMENTATION OF SFAS NO. 142 "GOODWILL AND OTHER INTANGIBLE ASSETS" (Continued):

The following table reflects consolidated results adjusted as though the adoption of SFAS No. 142 was as of the beginning of calendar year 2001:

	Three Months Ended June 30,	
	2002	2001
Reported net income	$ 27,533	$ 26,350
Amortization of goodwill (net of income tax benefits of $34 and $67 for the respective 2001 periods)	-	2,049
Adjusted net income	$ 27,533	$ 28,399
Basic earnings per common share:		
Reported net income	$ .61	$ .51
Amortization of goodwill, net of taxes	-	.04
Adjusted net income per basic share	$ .61	$ .55
Diluted earnings per common share:		
Reported net income	$ .60	$ .51
Amortization of goodwill, net of taxes	-	.04
Adjusted net income per diluted share	$ .60	$ .55

C. MORTGAGE BANKING ACTIVITIES:

The Corporation's mortgage banking subsidiary services real estate loans for investors that are not included in the accompanying consolidated financial statements. Mortgage servicing rights are established based on the cost of acquiring the right to service mortgage loans or the allocated fair value of servicing rights retained on originated loans sold.

Mortgage servicing rights are included in the Consolidated Statement of Financial Condition under the caption "Other Assets." The carrying value of mortgage servicing rights includes the fair value of related interest rate floor agreements totaling $4,748,000 and $2,612,000, respectively, at June 30, 2002 and 2001. The activity of mortgage servicing rights is summarized as follows for the following periods:

	Three Months Ended June 30,	
	2002	2001
Beginning balance	$ 119,313	$ 112,121

Mortgage servicing rights retained through loan sales	9,560	11,724
Amortization expense	(6,751)	(3,575)
Other items, net (principally hedge activity)	3,056	(2,451)
	125,178	117,819
Valuation adjustments	(16,607)	(172)
Ending balance	$ 108,571	$ 117,647

The activity of the valuation allowances on mortgage servicing rights is summarized as follows for the following periods:

	Three Months Ended June 30,	
	2002	2001
Beginning balance	$ 19,112	$ 6,067
Amounts charged (credited) to operations	16,607	172
Ending balance	$ 35,719	$ 6,239

The fair value of the Corporation's mortgage servicing rights totaled approximately $104,501,000 at June 30, 2002, compared to $130,341,000 at June 30, 2001.

The following compares the key assumptions used in measuring the fair values of mortgage servicing rights at the periods presented:

	June 30, 2002	
	Conventional	Governmental
Fair value	$ 55,178	$ 49,323
Prepayment speed	6.1% - 69.7%	7.7% - 65.3%
Weighted average prepayment speed	21.1%	19.9%
Discount rate	9.5% - 11.6%	11.6% - 12.0%

D. COMMITMENTS AND CONTINGENCIES:

At June 30, 2002, the Corporation's outstanding commitments, excluding undisbursed portions of loans in process, were as follows:

Originate residential mortgage loans	$	137,634
Purchase residential mortgage loans		126,128
Originate commercial real estate loans		135,154
Originate consumer, commercial operating and agricultural loans		17,439
Unused lines of credit for commercial and consumer use		223,064
	$	639,419

Loan commitments, which are funded subject to certain limitations, extend over various periods of time. Generally, unused loan commitments are cancelled upon expiration of the commitment term as outlined in each individual contract. These outstanding loan commitments to extend credit do not necessarily represent future cash requirements since many of the commitments may expire without being drawn upon. The Corporation evaluates each customer's credit worthiness on a separate basis and requires collateral based on this evaluation. Collateral consists mainly of residential family units and personal property.

At June 30, 2002, the Corporation had approximately $348,800,000 in mandatory forward delivery commitments to sell residential mortgage loans. At June 30, 2002, loans sold subject to recourse provisions totaled approximately $5,244,000 which represents the total potential credit risk associated with these particular loans. Any credit risk, however, would be offset by the value of the single-family residential properties that collateralize these loans.

The Corporation is subject to a number of lawsuits and claims for various amounts which arise out of the normal course of its business. In the opinion of management, the disposition of claims currently pending will not have a material adverse effect on the Corporation's financial position or results of operations.

On September 12, 1994, the Bank and the Corporation commenced litigation relating to supervisory goodwill against the United States in the United States Court of Federal Claims seeking to recover monetary relief for the government's refusal to honor certain contracts that it had entered into with the Bank. The suit alleges that such governmental action constitutes a breach of contract and an unlawful taking of property by the United States without just compensation or due process in violation of the Constitution of the United States. The Corporation and the Bank are pursuing alternative damage claims of up to approximately $230,000,000. The Bank also assumed a lawsuit in the merger with Mid Continent Bancshares, Inc. ("Mid Continent"), against the United States also relating to a supervisory goodwill claim filed by the former Mid Continent. The litigation status and process of these legal actions, as well as that of numerous actions brought by others alleging similar claims with respect to supervisory goodwill and regulatory capital credits, make the value of the claims asserted by the Bank (including the Mid Continent claim) uncertain as to their ultimate outcome, and contingent on a number of factors and future events which are beyond the control of the Bank, both as to substance, timing and the dollar amount of damages that may be awarded to the Bank and the Corporation if they finally prevail in this litigation.

E. SEGMENT INFORMATION:

Effective January 1, 2002, the Corporation's operations were realigned into four lines of business operations for management reporting purposes. These lines of business units are Commercial Banking, Mortgage Banking, Retail Banking and

Treasury. Before this realignment, the Corporation identified and utilized two lines of business: Community Banking and Mortgage Banking. The segment information for the three and six months ended June 30, 2001, was restated to reflect these changes. This realignment was made to allow management to make more well-informed operating decisions, to focus resources to benefit both the Corporation and its customers, and to assess performance and products on a continuous basis.

The financial information presented does not necessarily represent the business unit's results of operations or financial condition as if they were independent companies. This information in the following tables is derived from management's internal reporting system used to measure the performance of the segments and the Corporation in total. This management reporting system and the results of operations and financial condition by reported business unit are not in accordance with accounting principles generally accepted in the United States.

The Commercial Banking segment involves the origination of commercial operating, agricultural, commercial real estate, and small business loans, as well as indirect lending and commercial and residential construction loans. Also included in this segment is commercial demand and time deposits and cash management products. The Commercial Banking services are offered through the Bank's branch network and the Internet.

The Mortgage Banking segment involves the acquisition of correspondent and brokered residential mortgage loans, the sale of these mortgage loans in the secondary mortgage market and to the Treasury segment, the servicing of mortgage loans, and the purchase and origination of rights to service mortgage loans. Mortgage Banking operations are conducted through the Bank's branches, mortgage loan offices and a nationwide correspondent network of mortgage loan originators.

The Retail Banking segment involves a variety of traditional banking and financial services including the origination of residential mortgage loans through the Bank's branch network and the sale of these mortgage loans to the Treasury and Mortgage Banking segments. These services include consumer checking, savings and certificates of deposit accounts (regular and retirement); consumer loans for home equity, autos, secured and unsecured purposes, as well as credit cards; and all retail banking services including overdraft protection, electronic and telephone bill-paying and cash advances. Also included in this segment is insurance and securities brokerage services. The Retail Banking services are offered through the Bank's branch network, automated teller machines, customer support telephone centers and the Internet.

The Treasury segment is responsible for corporate asset and liability management including the Corporation's single-family residential mortgage loan portfolio, investment and mortgage-backed securities, wholesale deposits, advances from the Federal Home Loan Bank ("FHLB") and all other borrowings. The Treasury segment also manages the interest rate risk of the Corporation.

Net interest income is determined by the Corporation's internal funds transfer pricing system which calculates each segment's net interest income contribution based on the type, maturity or repricing characteristics of certain assets and liabilities. The provision for loan losses by segment is based upon the current and historical business cycle loss rates. Total other income consists of revenue directly attributable to each segment, allocations based on segment ownership of certain assets and liabilities, and bank owned life insurance allocated to segments net of associated expenses and income taxes. Total other expense consists of direct expenses attributable to each segment and indirect expenses allocated by an activity-based costing system using full absorption. Income taxes are calculated separately for each segment with the "Reclassification" column used to reconcile net income by segment to the external reported consolidated net income. In addition the "Reclassification" column includes the net impact of transfer pricing loan and deposit balances, the reconciliation of provision for loan losses and income taxes to external reported balances, and any residual effects of unallocated systems and other support functions.

E. SEGMENT INFORMATION (Continued):

The contributions of the major business segments to the consolidated results for the three and six months ended June 30, 2002 and 2001 are summarized in the following tables:

	Commercial Banking	Mortgage Banking	Retail Banking	Treasury
Three Months Ended June 30, 2002:				
Net interest income	$ 22,055	$ 7,861	$ 28,423	$ 22,3
Provision (credit) for loan losses	3,090	103	2,262	2,6
Total other income (loss)	1,256	8,796	27,305	(6,3
Total other expense (income)	8,832	8,157	47,326	(1,0
Income (loss) before income taxes	11,389	8,397	6,140	14,3
Income tax provision (benefit)	3,890	3,014	2,204	3,6
Net income	$ 7,499	$ 5,383	$ 3,936	$ 10,7
Total revenue	$ 23,311	$ 16,657	$ 55,728	$ 15,9
Intersegment revenue	-	2,218	3,298	6
Depreciation and amortization	133	212	4,215	
Total assets	3,051,241	1,145,643	1,328,441	7,649,9
Three Months Ended June 30, 2001:				
Net interest income	$ 18,413	$ 3,893	$ 29,617	$ 23,3
Provision (credit) for loan losses	1,288	12	1,984	4,1
Total other income (loss)	1,842	10,373	28,802	(11,6
Total other expense (income)	8,263	7,467	46,535	(4,3
Income (loss) before income taxes	10,704	6,787	9,900	11,9
Income tax provision (benefit)	3,993	2,518	3,673	2,8
Net income	$ 6,711	$ 4,269	$ 6,227	$ 9,1
Total revenue	$ 20,255	$ 14,266	$ 58,419	$ 11,6
Intersegment revenue	-	2,850	4,442	1
Depreciation and amortization	64	136	4,505	
Total assets	2,755,296	799,118	1,409,939	7,680,9

E. SEGMENT INFORMATION (Continued):

	Commercial Banking	Mortgage Banking	Retail Banking	Treasury	Reclassifica
Six Months Ended June 30, 2002:					
Net interest income	$ 44,675	$ 13,688	$ 55,860	$ 51,026	$ -
Provision (credit) for loan losses	6,137	173	4,471	4,529	(3,181)
Total other income (loss)	2,508	18,108	54,563	(18,126)	(5,338)
Total other expense (income)	17,269	16,385	93,604	(1,142)	279
Income (loss) before income taxes	23,777	15,238	12,348	29,513	(2,436)
Income tax provision (benefit)	8,139	5,470	4,433	7,318	(2,436)
Net income	$ 15,638	$ 9,768	$ 7,915	$ 22,195	$ -
Total revenue	$ 47,183	$ 31,796	$ 110,423	$ 32,900	$(5,338)
Intersegment revenue	-	5,625	7,765	1,291	
Depreciation and amortization	262	337	8,421	70	-
Total assets	3,051,241	1,145,643	1,328,441	7,649,939	-
Six Months Ended June 30, 2001:					
Net interest income	$ 35,344	$ 6,092	$ 60,959	$ 44,715	$ -
Provision (credit) for loan losses	2,492	22	3,976	5,548	(1,158)
Total other income (loss)	4,109	17,367	53,612	(14,305)	(720)
Total other expense (income)	17,563	15,214	95,015	(5,378)	3,573
Income (loss) before income taxes	19,398	8,223	15,580	30,240	(3,135)
Income tax provision (benefit)	7,154	3,050	5,780	8,873	(3,135)
Net income	$ 12,244	$ 5,173	$ 9,800	$ 21,367	$ -
Total revenue	$ 39,453	$ 23,459	$ 114,571	$ 30,410	$ (720)
Intersegment revenue	-	5,194	6,879	330	
Depreciation and amortization	131	269	9,097	90	-
Total assets	2,755,296	799,118	1,409,939	7,680,946	-

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F. REGULATORY CAPITAL:

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Regulators can initiate certain mandatory, and possibly additional discretionary, actions if the Bank fails to meet minimum capital requirements. These actions could have a direct material effect on the Corporation's financial position and results of operations. The regulations require the Bank to meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital classification is also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios as set forth in the following table. Prompt corrective action provisions pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") require specific supervisory actions as capital levels decrease. To be considered well-capitalized under the regulatory framework for prompt corrective action provisions under FDICIA, the Bank must maintain certain minimum capital ratios as set forth below. At June 30, 2002, the Bank exceeded the minimum requirements for the well-capitalized category.

The following presents the Bank's regulatory capital levels and ratios relative to its respective minimum capital requirements as of June 30, 2002:

	Actual Capital		Required Capital	
	Amount	Ratio	Amount	Ratio
OTS capital adequacy:				
Tangible capital	$723,100	5.60%	$193,810	1.50%
Core capital	715,665	5.61	387,397	3.00
Risk-based capital	846,021	10.77	629,190	8.00
FDICIA regulations to be classified well-capitalized:				
Tier 1 leverage capital	715,665	5.54	645,662	5.00
Tier 1 risk-based capital	715,665	9.11	471,267	6.00
Total risk-based capital	846,021	10.77	785,445	10.00

The most recent notification from the OTS categorized the Bank as "well-capitalized" under the regulatory framework for prompt corrective action provisions under FDICIA. There are no conditions or events since such notification that management believes have changed the Bank's classification.

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G. CURRENT ACCOUNTING PRONOUNCEMENTS:

Effective January 1, 2002, the Corporation adopted the provisions of Statement of Financial Accounting Standard No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") that replaced SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." This statement developed a single accounting model, based on the provisions of SFAS No. 121, for long-lived assets to be disposed of by sale and addressed implementation issues arising from SFAS No. 121. The accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30 for the disposal of segments of a business. SFAS 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less costs to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. Provisions of this statement are generally to be applied prospectively. The adoption of the provisions of this statement had no effect on the Corporation's financial position, liquidity or results of operations.

In May 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 145 "Recission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement 13, and Technical Corrections" ("SFAS No. 145"). This statement eliminates the requirement that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. However, an entity is not prohibited from classifying such gains and losses as extraordinary items, so long as they meet the criteria outlined in Accounting Principles Board Opinion No. 30 "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 145 also eliminates the inconsistency between the accounting for sale-leaseback transactions and certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This statement is effective for financial statements issued for fiscal years beginning after May 15, 2002, or beginning January 1, 2003, for the Corporation. Management does not believe that this statement will have any material effect on the Corporation's financial position, liquidity or results of operations.

H. SUBSEQUENT EVENT - COMMON STOCK REPURCHASES:

On February 28, 2002, the Board of Directors authorized the repurchase of 500,000 shares of common stock to be completed no later than December 31, 2003. Repurchase under this program began July 22, 2002, and through August 9, 2002, a total of 204,200 shares were repurchased at a cost of $5,128,000.

Repurchases of the Corporation's common stock can be made at any time and in any amount, depending upon market conditions and various other factors. Any repurchase generally will be on the open-market, although privately negotiated transactions are also possible. In compliance with Nebraska law, all repurchased shares will be cancelled. On January 28, 2002, the Corporation completed a series of four stock repurchase programs that began in April 1999. These four repurchase programs resulted in 16,500,000 shares of the Corporation's common stock repurchased at a cost of $349,417,000.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The statements in this Form 10-Q that are not historical fact are forward-looking statements that involve inherent risks and uncertainties. Management cautions readers that a number of important factors could cause actual results to differ materially from those in the forward-looking statements. Factors that might cause a difference include, but are not limited to: fluctuations in interest rates, inflation, the effect of regulatory or government legislative changes, expected cost savings and revenue growth not fully realized, the progress of strategic initiatives and whether realized within expected time frames, general economic conditions, adequacy of allowance for credit losses, costs or difficulties associated with restructuring initiatives, technology changes and competitive pressures in the geographic and business areas where the Corporation conducts its operations. These forward-looking statements are based on management's current expectations. Actual results in future periods may differ materially from those currently expected because of various risks and uncertainties.

CRITICAL ACCOUNTING POLICIES:

The Corporation's critical accounting policies involving the more significant judgments and assumptions used in the preparation of the consolidated financial statements as of June 30, 2002, have remained unchanged from December 31, 2001. These policies are allowance for losses on loans, mortgage servicing rights and derivative financial instruments. Disclosure on these critical accounting policies is incorporated by reference under Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Corporation's Annual Report on Form 10-K for the Corporation's year ended December 31, 2001.

Nonperforming residential real estate loans at December 31, 2001, have been restated due to a change in determining past due loans. During the June 30, 2002, quarter the Corporation changed from a methodology where the loan system converted monthly loan payments missed on a loan to days past due in determining delinquent residential real estate loans to a method where the number of days past due are determined by the number of contractually delinquent loan payments. This change in determining these delinquent loans conforms the Corporation's reporting with the Bank's regulatory thrift financial reporting and aligns the Corporation's reporting of delinquencies with its peers. All prior periods will be restated to reflect this change.

LIQUIDITY AND CAPITAL RESOURCES:

The Corporation's principal asset is its investment in the capital stock of the Bank. Since the Corporation does not generate any significant revenues independent of the Bank, the Corporation's liquidity is dependent on the extent to which it receives dividends from the Bank. The Bank's ability to pay dividends to the Corporation is dependent on its ability to generate earnings and is subject to a number of regulatory restrictions and tax considerations. Capital distribution regulations of the Office of Thrift Supervision ("OTS"), permit the Bank, without requiring an application for approval from the OTS, to pay capital distributions during a calendar year up to 100% of the Bank's retained net income (net income determined in accordance with generally accepted accounting principles less total capital distributions declared) for the current calendar year plus the preceding two calendar years. At June 30, 2002, the Bank's total distributions exceeded its retained income by $236.6 million under this regulation thereby requiring the Bank to file an application with the OTS for any capital distributions.

The Corporation manages its liquidity at both the parent company and subsidiary levels. At June 30, 2002, the cash of Commercial Federal Corporation (the "parent company") totaled $24.1 million. Due to the parent company's limited independent operations, the parent company's ability to make future interest and principal payments on its debt totaling $119.3 million at June 30, 2002, is dependent upon its receipt of dividends from the Bank. During the six months ended June 30, 2002, the parent company received cash dividends totaling $45.0 million ($10.0 million received in the second quarter) from the Bank for:

.. interest payments totaling $6.9 million on the parent company's debt,

.. principal payments of $14.1 million on the parent company's five-year term note and revolving credit note,

.. common stock cash dividends totaling $15.8 million paid by the parent company to its common stock shareholders, and

.. the financing of common stock repurchases totaling $8.2 million.

LIQUIDITY AND CAPITAL RESOURCES (Continued):

The Bank will continue to pay dividends to the parent company, subject to regulatory restrictions, to cover future principal and interest payments on the parent company's debt and quarterly cash dividends on common stock when and as declared by the parent company. The parent company also receives cash from the exercise of stock options under its employee stock option plans, as well as from the Bank for income tax benefits from operating losses generated by the parent company as provided in the corporate tax sharing agreement.

During the first quarter of 2002 the Corporation repurchased 798,500 shares of its common stock at a cost of $19.5 million completing the Board authorization on May 7, 2001, to repurchase an additional 5,000,000 shares by December 31, 2002. On February 28, 2002, the Board of Directors authorized an additional stock repurchase for 500,000 shares to be completed no later than December 31, 2003. As of June 30, 2002, no common stock had been repurchased pursuant to this authorization. However, the Corporation began repurchasing its common stock on July 22, 2002, and through August 9, 2002, repurchased 204,200 shares at a cost of $5.1 million.

The Corporation's primary sources of funds are (i) deposits, (ii) principal repayments on loans, mortgage-backed and investment securities, (iii) advances from the FHLB and (iv) cash generated from operations. Net cash flows used by operating activities totaled $232.6 million and $59.3 million, respectively, for the six months ended June 30, 2002 and 2001. Amounts fluctuate from period to period primarily as a result of mortgage banking activity relating to the purchase and origination of loans for resale and the subsequent sale of such loans.

Net cash flows used by investing activities totaled $39.1 million for the six months ended June 30, 2002, and net cash flows provided by investing activities totaled $6.2 million for the six months ended June 30, 2001. Amounts fluctuate from period to period primarily as a result of (i) principal repayments on loans and mortgage-backed securities, (ii) the purchases and origination of loans and (iii) the purchases and sales of mortgage-backed and investment securities. During the second quarter of 2002, the Corporation sold investment securities totaling $598.9 million resulting in a pre-tax gain of $11.7 million. During the first six months of 2001, the Corporation sold investment and mortgage-backed securities totaling $459.5 million resulting in a pre-tax gain of $9.7 million. These gains on the sales of these available-for-sale securities for the respective periods were recognized primarily to offset the valuation adjustment losses in the mortgage servicing rights portfolio totaling $16.1 million and $5.7 million, respectively, for the six months ended June 30, 2002 and 2001. During the quarter ended March 31, 2002, the Corporation incurred pre-tax losses of $3.1 million on the sales of available-for-sale investment and mortgage-backed securities totaling $144.1 million. The proceeds from the sale of these securities were reinvested into higher yielding securities.

Net cash flows provided by financing activities totaled $223.9 million and $37.5 million, respectively, for the six months ended June 30, 2002 and 2001. Advances from the FHLB and deposits have been the primary sources to balance the Corporation's funding needs during each of the periods presented. The Corporation experienced a net decrease in deposits of $153.2 million for the six months ended June 30, 2002, compared to a net decrease of $559.0 million for the six months ended June 30, 2001. The net decrease in deposits for the current period is due to a net reduction totaling $107.8 million in core deposits and the run-off in the higher costing certificates of deposit portfolio totaling $45.4 million. Deposits decreased a net $559.0 million for the six months ended June 30, 2001, due to the Corporation's reduction of $189.4 million in brokered deposits for funding needs, deposits totaling $110.2 million sold pursuant to the 2001 branch divestiture and $454.3 million run-off in the higher costing certificates of deposits as part of the Corporation's business strategy. Partially offsetting these decreases was a net increase in core deposits totaling $194.9 million. During the three and six months ended June 30, 2002, the Corporation purchased $400.0 million and $700.0 million notional amount of swaptions at a cost of $16.2 million and $34.3 million, respectively, to hedge the call option on $700.0 million of fixed-rate FHLB advances that are convertible into adjustable-rate advances at the option of the Federal Home Loan Bank. During the six months ended June 30, 2002 and 2001, the Corporation repurchased shares of its common stock at a cost of $19.5 million and $62.3 million, respectively.

LIQUIDITY AND CAPITAL RESOURCES (Continued):

Contractual Obligations and Other Commitments:

Through the normal course of operations, the Corporation enters into certain contractual obligations and other commitments. These obligations generally relate to funding of operations through debt issuances as well as leases for premises and equipment. As a financial institution, the Corporation routinely enters into commitments to extend credit, including loan commitments, standby letters of credit and financial guarantees. At June 30, 2002, the Corporation issued commitments totaling approximately $639.4 million to fund and purchase loans and securities as follows: $88.0 million of single-family adjustable-rate mortgage loans, $175.7 million of single-family fixed-rate mortgage loans, $135.2 million of commercial real estate loans, $17.4 million of consumer, commercial operating and agricultural loans and approximately $223.1 million of unused lines of credit for commercial and consumer use. These outstanding loan commitments to extend credit in order to originate loans or fund commercial and consumer loans lines of credit do not necessarily represent future cash requirements since many of the commitments may expire without being drawn. The Corporation expects to fund these commitments, as necessary, from the sources of funds previously described. In addition, at June 30, 2002, the Corporation had approximately $348.8 million in mandatory forward delivery commitments to sell residential mortgage loans. The following table represents the Corporation's significant contractual obligations at June 30, 2002, for the next five years:

Due June 30:	Long-Term Debt	Lease Obligations	Total
2003	$ 50,543	$ 6,071	$ 56,614
2004	7,250	5,076	12,326
2005	38,063	3,400	41,463
2006	-	2,300	2,300
2007	221,725	1,696	223,421
2008 and thereafter	295,000	11,921	306,921
Totals	$ 612,581	$ 30,464	$ 643,045

The maintenance of an appropriate level of liquid resources to provide funding necessary to meet the Corporation's current business activities and obligations is an integral element in the management of the Corporation's assets. Liquidity levels will vary depending upon savings flows, future loan fundings, cash operating needs, collateral requirements and general prevailing economic conditions. The Bank does not foresee any difficulty in meeting its liquidity requirements.

OPERATING RESULTS BY SEGMENT:

See Note E to the Condensed Consolidated Financial Statements for additional information on the Corporation's lines of business including tabular results of operations for the three and six months ended June 30, 2002 and 2001.

Commercial Banking:

The Commercial Banking segment reported net income of $7.5 million and $15.6 million, respectively, for the three and six months ended June 30, 2002, compared to $6.7 million and $12.2 million, respectively, for the three and six months ended June 30, 2001. Net interest income increased $3.6 million for the quarter ended June 30, 2002, compared to the 2001 second quarter. For the six months ended June 30, 2002, net interest income increased $9.3 million compared to the six months ended June 30, 2001. These increases in net interest income are due primarily to the growth in the average balance of the commercial loan portfolio during 2002 over the respective 2001 periods. The provision for loan losses increased $1.8 million and $3.6 million, respectively, for the three and six months ended June 30, 2002, compared to the 2001 three and six month periods. These increases are due to the larger commercial loan portfolio comparing the respective periods since the loss rate applied remained unchanged. Total other income decreased $586,000 and $1.6 million, respectively, for the three and six months ended June 30, 2002, compared to the respective 2001 periods primarily due to net losses incurred from commercial real estate operations during the 2002 three and six month periods compared to net gains recorded in the respective 2001 periods. For the three and six months ended June 30, 2002, the Corporation recorded an impairment loss totaling $1.9 million on a residential master planned community development in Nevada. Total other expense increased $569,000 for the three months ended June 30, 2002, compared to the 2001 second quarter due to increases in compensation and benefits. Total other expense decreased $294,000 for the six months ended June 30, 2002, compared to the six months ended June 30, 2001, primarily due to $754,000 in additional expenses recorded in the 2001 first quarter to finalize the sale of the leasing portfolio in February 2001.

OPERATING RESULTS BY SEGMENT (continued):

Mortgage Banking:

The Mortgage Banking segment reported net income of $5.4 million and $9.8 million, respectively, for the three and six months ended June 30, 2002, compared to $4.3 million and $5.2 million, respectively, for the three and six months ended June 30, 2001. Net interest income increased $4.0 million for the quarter ended June 30, 2002, compared to the quarter ended June 30, 2001. For the six months ended June 30, 2002, net interest income increased $7.6 million compared to the six months ended June 30, 2001. These increases in net interest income comparing the respective periods are primarily due to increases in the credit the Mortgage Banking segment received in the 2002 periods compared to 2001 from increases in its custodial earnings that were computed using an internal cost of funds rate. The custodial earnings increased comparing the respective periods due to increases in escrow balances primarily from mortgage refinancing activity. Total other income decreased $1.6 million for the three months ended June 30, 2002, compared to the 2001 second quarter due to increases in amortization expense of mortgage servicing rights in 2002 over 2001. Total other income increased $741,000 for the six months ended June 30, 2002, compared to 2001 primarily due to net gains on the sales of warehouse loans comparing the respective periods partially offset by increases in amortization expense of mortgage servicing rights in 2002 over 2001. Total other expense increased $690,000 and $1.2 million, respectively, for the three and six months ended June 30, 2002, compared to the respective 2001 periods.

Retail Banking:

The Retail Banking segment reported net income of $3.9 million and $7.9 million, respectively, for the three and six months ended June 30, 2002, compared to $6.2 million and $9.8 million, respectively, for the three and six months ended June 30, 2001. Net interest income decreased $1.2 million and $5.1 million, respectively, for the three and six months ended June 30, 2002, compared to the 2001 periods. These decreases in net interest income are primarily due to lower average balances of interest-earning loans and lower rates on such loans comparing the respective periods of 2002 to 2001. The provision for loan losses increased $278,000 and $495,000, respectively, for the three and six months ended June 30, 2002 compared to the 2001 periods due to the changes in the Retail Banking segment's loan portfolio mix. Total other income decreased $1.5 million for the three months ended June 30, 2002, compared to the 2001 second quarter due to decreases in commission revenues from brokerage operations. Total other income increased $951,000 for the six months ended June 30, 2002, compared to the six months ended June 30, 2001, primarily due to the increased retail fee pricing structure effective September 1, 2001, partially offset by decreases in commission revenues from brokerage and insurance operations. Total other expense increased $791,000 for the quarter ended June 30, 2002, compared to the three months ended June 30, 2001, due to increases in compensation and benefits and advertising. Total other expense decreased $1.4 million for the six months ended June 30, 2002, compared to 2001 primarily due to $2.0 million recorded in 2001 as a net gain relating to the sale of branches and termination benefits pursuant to the August 2000 key initiatives.

Treasury:

The Treasury segment reported net income of $10.7 million and $22.2 million, respectively, for the three and six months ended June 30, 2002, compared to $9.1 million and $21.4 million, respectively, for the three and six months ended June 30, 2001. Net interest income decreased $1.0 million for the current 2002 second quarter compared to the 2001 second quarter. This decrease is due primarily to the lower yield earned on the mortgage-backed securities portfolio comparing the respective periods. Net interest income increased $6.3 million for the six months ended June 30, 2002, compared to 2001 due primarily to the lower cost of borrowed funds and the higher average balance of investment and mortgage-backed securities for the first half of 2002 compared to 2001. The provision for loan losses decreased $1.5 million and $1.0 million, respectively, for the three and six months ended June 30, 2002, compared to the 2001 periods due to a lower balance of loans held in the Treasury segment comparing the respective periods. Total other income is a loss of $6.4 million for the quarter ended June 30, 2002, compared to a loss of $11.7 million for 2001. This improvement in total other income comparing the respective periods is due to net gains on the sales of securities and changes in fair values of derivatives totaling $13.6 million for the 2002 second quarter compared to a net loss of $1.3 million for the 2001 quarter partially offset by a $16.6 million valuation adjustment for impairment of the mortgage servicing rights recorded during the 2002 second quarter. For the six months ended June 30, 2002 and 2001, total other income is a loss of $18.1 million and $14.3 million, respectively. This decrease in total other income is due primarily to valuation adjustments for impairment of the mortgage servicing rights totaling $16.1 million recorded in the 2002 six month period compared to $5.7 million recorded in the six months ended June 30, 2001, partially offset by higher amounts of intersegment revenues allocated from Treasury to the Mortgage and Retail Banking segments in 2001 compared to 2002. Total other expense for the three and six months ended June 30, 2002, are credits of $1.0 million and $1.1 million, respectively, compared to credits of $4.4 million and $5.4 million, respectively, for the three and six months ended

June 30, 2001. These net changes are primarily due to higher loan production cost allocations in the 2002 periods compared to 2001.

CONSOLIDATED RESULTS OF OPERATIONS:

Net income for the three months ended June 30, 2002, was $27.5 million, or $.60 per diluted share ($.61 per basic share), compared to net income of $26.4 million, or $.51 per basic and diluted share, for the three months ended June 30, 2001. The increase in net income comparing the respective quarters is primarily due to an increase of $5.4 million in net interest income and decreases of $2.4 million in the amortization of intangible assets and $897,000 in the provision for loan losses. These increases to net income were partially offset by a decrease of $1.9 million in total other income and an increase of $5.8 million in general and administrative expenses.

Net income for the six months ended June 30, 2002, was $55.5 million, or $1.21 per diluted share ($1.22 per basic share), compared to net income for $48.6 million, or $.93 per diluted share ($.94 per basic share), for the six months ended June 30, 2001. The increase in net income comparing the respective periods is primarily due to an increase of $18.1 million in net interest income and a decrease of $4.8 million in the amortization of intangible assets. These increases to net income were partially offset by a decrease of $8.3 million in total other income and increases in general and administrative expenses ($5.2 million), the provision for loan losses ($1.2 million) and the provision for income taxes ($1.2 million).

Net Interest Income:

Net interest income totaled $80.7 million for the three months ended June 30, 2002, compared to $75.3 million for the three months ended June 30, 2001, an increase of approximately $5.4 million, or 7.2%. During the three months ended June 30, 2002 and 2001, interest rate spreads were 2.82% and 2.58%, respectively, an increase of 24 basis points; and the net yield on interest-earning assets was 2.76% and 2.57%, respectively, an increase of 19 basis points. The increase in the interest rate spread is due primarily to a 116 basis point decrease in the rate paid on interest-bearing liabilities partially offset by a 92 basis point decrease in the yield received on interest-earning assets. Total interest expense decreased $33.1 million comparing the three months ended June 30, 2002 to 2001 due to the lower costs of funds. Total interest income decreased $27.7 million over the same three-month periods due to lower yields on interest-earning assets.

Net interest income totaled $165.2 million for the six months ended June 30, 2002, compared to $147.1 million for the six months ended June 30, 2001, an increase of approximately $18.1 million, or 12.3%. During the six months ended June 30, 2002 and 2001, interest rate spreads were 2.88% and 2.52%, respectively, an increase of 36 basis points comparing periods; and the net yield on interest-earning assets was 2.83% and 2.53%, respectively, an increase of 30 basis points comparing periods. The increase in the interest rate spread is due primarily to a 130 basis point decrease in the rate paid on interest-bearing liabilities partially offset by a 94 basis point decrease in the yield received on interest-earning assets. Total interest expense decreased $71.9 million comparing the six months ended June 30, 2002 to 2001 due to the lower costs of funds. Total interest income decreased $53.8 million over the same six-month periods due to lower yields on interest-earning assets.

Net interest income increased for the three and six months ended June 30, 2002, compared to the respective 2001 periods due to (i) the lower interest rate environment in which costing liabilities have been repricing downward at a faster rate than earning assets have been repricing, (ii) the continued shift in the asset mix toward higher yielding commercial and consumer loans and (iii) a shift in funding from certificates of deposit to checking and savings (core deposits).

Net Interest Income (Continued):

Based on the current interest rate environment and the Corporation's gap position, management anticipates a decline to a more sustainable level in the net interest margin during the last six months of calendar year 2002 as earning-assets reprice. However, the future trend in interest rate spreads and net interest income will be dependent upon and influenced by changes in and levels of both short-term and long-term market interest rates, and such other factors as the composition and size of the Corporation's interest-earning assets and interest-bearing liabilities, the interest rate risk exposure of the Corporation and the maturity and repricing activity of interest-sensitive assets and liabilities.

The following table presents certain information concerning yields earned on interest-earning assets and rates paid on interest-bearing liabilities during and at the end of each of the periods presented:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		Jun
	2002	2001	2002	2001	2002
Weighted average yield on:					
Loans	7.11%	7.85%	7.19%	7.98%	7.12%
Mortgage-backed securities	5.19	6.62	5.53	6.68	6.10
Investments	5.44	6.42	5.43	6.49	4.90
Interest-earning assets	6.61	7.53	6.72	7.66	6.67
Weighted average rate paid on:					
Savings and checking acounts (core deposits)	2.49	3.17	2.52	3.32	2.47
Certificates of deposit	3.34	5.70	3.59	5.84	3.28
Advances from FHLB	4.83	5.61	4.82	5.85	4.70
Securities sold under agreements to repurchase	3.91	6.23	4.02	6.16	3.83
Other borrowings	6.16	7.48	5.05	7.98	5.51
Interest-bearing liabilities	3.79	4.95	3.84	5.14	3.73
Net interest rate spread	2.82%	2.58%	2.88%	2.52%	2.94%
Net annualized yield on interest-earning assets	2.76%	2.57%	2.83%	2.53%	2.91%

Net Interest Income (Continued):

The following table presents average interest-earning assets and average interest-bearing liabilities, interest income and interest expense, and average yields and rates during the three and six months ended June 30, 2002. This table includes nonaccruing loans averaging $67.2 million and $73.7 million, respectively, for the three and six months ended June 30, 2002, as interest-earning assets at a yield of zero percent:

	Three Months Ended June 30, 2002			
	Average Balance	Interest	Annualized Yield/ Rate	A B
Interest-earning assets:				
Loans	$ 8,447,815	$ 150,037	7.11%	$ 8
Mortgage-backed securities	1,834,009	23,806	5.19	1
Investments	1,421,861	19,328	5.44	1
Interest-earning assets	11,703,685	193,171	6.61	11
Interest-bearing liabilities:				
Savings and checking accounts (core deposits)	3,349,243	20,778	2.49	3
Certificates of deposit	2,907,709	24,205	3.34	2
Advances from FHLB	4,965,734	60,611	4.83	4
Securities sold under agreements to repurchase	401,802	3,972	3.91	
Other borrowings	190,776	2,939	6.16	
Interest-bearing liabilities	11,815,264	112,505	3.79	11
Net earnings balance	$ (111,579) ===========			$ ===
Net interest income		$ 80,666 ==========		
Net interest rate spread			2.82%	
Net annualized yield on interest-earnings assets			2.76%	

The Corporation's net earnings balance decreased by $133.8 million during the six months ended June 30, 2002, compared to the six months ended June 30, 2001. This decrease in the net earnings balance comparing these periods is primarily due to the repurchases of common stock totaling $138.1 million over the last twelve months.

Net Interest Income (Continued):

The following table presents the dollar amount of changes in interest income and expense for each major component of interest-earning assets and interest-bearing liabilities, and the amount of change in each attributable to: (i) changes in volume (change in volume multiplied by prior year rate), and (ii) changes in rate (change in rate multiplied by prior year volume). The net change attributable to change in both volume and rate, which cannot be segregated, has been allocated proportionately to the change due to volume and the change due to rate. This table demonstrates the effect of the change in the volume of interest-earning assets and interest-bearing liabilities, the changes in interest rates and the effect on the interest rate spreads previously discussed:

	Three Months Ended June 30, 2002 Compared to June 30, 2001			
	Increase (Decrease) Due to			
	Volume	Rate	Total	
Interest income:				
Loans	$ (8,181)	$ (16,129)	$ (24,310)	$
Mortgage-backed securities	3,180	(6,250)	(3,070)	
Investments	2,933	(3,245)	(312)	
Interest income	(2,068)	(25,624)	(27,692)	
Interest expense:				
Savings and checking accounts (core deposits)	(1,086)	(5,593)	(6,679)	
Certificates of deposit	(11,695)	(19,304)	(30,999)	
Advances from FHLB	11,599	(8,691)	2,908	
Securities sold under agreements to repurchase	3,126	(829)	2,297	
Other borrowings	26	(630)	(604)	
Interest expense	1,970	(35,047)	(33,077)	
Effect on net interest income	$ (4,038)	$ 9,423	$ 5,385	$

Provision for Loan Losses:

The Corporation recorded loan loss provisions totaling $5.5 million and $12.1 million, respectively, for the three and six months ended June 30, 2002, compared to $6.4 million and $10.9 million, respectively, for the three and six months ended June 30, 2001. The provision for loan losses decreased in the current quarter compared to the 2001 second quarter due to a decrease in net loans charged-off. Net loans charged-off totaled $4.1 million for the three months ended June 30, 2002, compared to $5.4 million for the three months ended

June 30, 2001. The net charge-offs are lower for the current quarter compared to the year-ago quarter due to decreases in charge-offs for consumer loans and agricultural loans partially offset by an increase in commercial real estate loan charge-offs. Net loans charged off for the six months ended June 30, 2002 totaled $10.5 million compared to $9.3 million for the six months ended June 30, 2001. Net charge-offs are higher for the current six month period compared to the prior year six month period due to increases in charge-offs of construction loans and commercial real estate loans partially offset by decreases in charge-offs of agricultural loans and consumer loans. The allowance for loan losses is based upon management's continuous evaluation of the collectibility of outstanding loans, which takes into consideration such factors as changes in the composition of the loan portfolio and economic conditions that may affect the borrower's ability to pay, regular examinations by the Corporation's credit review group of specific problem loans and of the overall portfolio quality and real estate market conditions in the Corporation's lending areas.

Management of the Corporation believes that the present level of the allowance for loan losses is adequate to reflect the risks inherent in its portfolios. However, there can be no assurance that the Corporation will not experience increases in its nonperforming assets, that it will not increase the level of its allowance in the future or that significant provisions for losses will not be required based on factors such as deterioration in market conditions, changes in borrowers' financial conditions, delinquencies and defaults.

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Provision for Loan Losses (Continued):

Nonperforming assets are monitored on a regular basis by the Corporation's internal credit review and problem asset groups. Nonperforming assets are summarized as of the dates indicated:

	Ju
Nonperforming loans:	
Residential real estate	$
Commercial real estate	
Consumer and other loans	
Total	
Real estate:	
Commercial	
Residential (includes residential development property in Nevada)	
Total	
Troubled debt restructurings:	
Commercial	
Residential	
Total	

Total nonperforming assets	$
Nonperforming loans to total loans	
Nonperforming assets to total assets	
Total allowance for loan losses (2)	$
Allowance for loan losses to:	
Total loans	
Total nonperforming assets	
Total nonperforming loans	
Nonresidential nonperforming assets	

(1) Nonperforming residential real estate loans at December 31, 2001 have been restated due to a change in determining past due loans. During the June 30, 2002, quarter the Corporation changed from a methodology where the loan system converted monthly loan payments missed on a loan to days past due in determining delinquent residential real estate loans to a method where the number of days past due are determined by the number of contractually delinquent loan payments. This change in determining these delinquent loans conforms the Corporation's reporting with the Bank's regulatory thrift financial reporting and aligns the Corporation's reporting of delinquencies with its peers. This change in methods reduced nonperforming residential real estate loans by $8.4 million and $10.7 million, respectively, at June 30, 2002, and December 31, 2001.

(2) Includes $279,000 and $92,000 at June 30, 2002 and December 31, 2001, respectively, in allowance for losses established on loans held for sale.

Nonperforming loans at June 30, 2002, decreased by $16.4 million compared to December 31, 2001, primarily due to the foreclosure and subsequent sale of a commercial real estate loan totaling $9.1 million, the paydown and charge-off of a commercial real estate loan totaling $2.3 million, a decrease in the residential portfolio totaling $4.0 million and a decrease in the consumer portfolio totaling $1.7 million partially offset by an increase in the agricultural portfolio totaling $1.3 million. The $5.0 million net decrease in real estate at June 30, 2002, compared to December 31, 2001, is primarily due to the sale of a commercial construction property totaling $3.9 million and by a net decrease in commercial real estate totaling $1.2 million primarily from impairment loss write offs and sales of other commercial real estate properties.

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Retail Fees and Charges:

Retail fees and charges totaled $13.9 million and $26.3 million, respectively, for the three and six months ended June 30, 2002, compared to $13.6 million and $25.7 million, respectively, for the three and six months ended June 30, 2001. The reasons for the increases over the prior year periods are due to an increased retail fee pricing structure effective September 1, 2001, and increases in the volume of checking accounts.

Loan Servicing Fees and Mortgage Servicing Rights Valuation Adjustment:

The major components of loan servicing fees for the periods indicated and the amount of loans serviced for other institutions are as follows:

	Three Months Ended June 30,	
	2002	200
Revenue from loan servicing fees	$ 8,007	$ 8,
Revenue from late loan payment fees	1,563	1,
Amortization of mortgage servicing rights	(6,751)	(3,
Loan servicing fees, net	$ 2,819	$ 6,
Valuation adjustments for impairment	$ (16,607)	$ (
Loans serviced for other institutions at June 30		

The amount of revenue generated from loan servicing fees, and changes in comparing periods, is primarily due to changes in the average size of the Corporation's portfolio of mortgage loans serviced for other institutions and the level of rates for service fees collected partially offset by the amortization expense of mortgage servicing rights and adjustments to the valuation allowances. The loan servicing fees category also includes fees collected for late loan payments. The net decreases in revenue from loan servicing fees comparing the respective periods of 2002 to 2001 are due to a lower level of service fee rates comparing the respective periods slightly offset by a higher average balance of mortgage loans serviced for others. The increases in amortization expense of mortgage servicing rights reflects an increase in loan prepayments due to the lower interest rate environment comparing the respective periods. The amount of amortization expense of mortgage servicing rights is determined, in part, by mortgage loan pay-downs in the servicing portfolio that are influenced by changes in interest rates. Valuation adjustments totaling $16.6 million and $16.1 million, respectively, in impairment losses were recorded during the three and six months ended June 30, 2002, as a reduction of the carrying amount of the mortgage servicing rights portfolio. This compares to valuation adjustments totaling $172,000 and $5.7 million, respectively, recorded during the three and six months ended June 30, 2001. Changes in the valuation allowance are due to increases or decreases in estimated prepayments of loans resulting from changes in interest rates. At June 30, 2002, the valuation allowance on the mortgage servicing rights portfolio totaled $35.7 million compared to $6.2 million at June 30, 2001.

The fair value of the Corporation's loan servicing portfolio increases as mortgage interest rates rise and loan prepayments decrease. It is expected that income generated from the Corporation's loan servicing portfolio will increase in such an environment. However, this positive effect on the Corporation's income is offset, in part, by a decrease in additional servicing fee income attributable to new loan originations, which historically decrease in periods of higher, or increasing, mortgage interest rates, and by an increase in expenses from loan production costs since a portion of such costs cannot be deferred due to lower loan originations. Conversely, the value of the Corporation's loan servicing portfolio will decrease as mortgage interest rates decline.

Gain (Loss) on Sales of Securities and Changes in Fair Values of Derivatives, Net:

During the three and six months ended June 30, 2002 and 2001, the following transactions were recorded:

	Three Mont June
	2002
Gain (loss) on the sales of available-for-sale securities:	
Investment securities	$ 11,698
Mortgages-backed securities	--
Net gain on sales	11,698
Changes in the fair value of interest rate floor agreements not qualifying for hedge accounting	2,364
Amortization expense on the deferred loss on terminated interest rate swap agreements	(508)
Other items	29
Gain (loss) on the sales of securities and changes in fair values of derivatives, net	$ 13,583

During the second quarter of 2002, the Corporation sold investment securities totaling $598.9 million resulting in a pre-tax gain of $11.7 million. This gain on the sales of investment securities was recognized to partially offset the valuation adjustment loss totaling $16.6 million in the mortgage servicing rights portfolio recorded in the quarter ended June 30, 2002. During the three months ended March 31, 2002, the Corporation incurred pre-tax losses totaling $3.1 million on the sales of $144.1 million of available-for-sale investment and mortgage-backed securities. The proceeds from the sale of these securities were reinvested into higher yielding securities. For the three and six months ended June 30, 2001, the Corporation sold securities totaling $246.2 million and $459.5 million, respectively, resulting in pre-tax gains of $1.6 million and $9.7 million, respectively. These net gains on the sales of available-for-sale securities were recognized to partially offset the valuation adjustment losses recorded in the mortgage servicing rights portfolio totaling $172,000 and $5.7 million, respectively, for the three and six months ended June 30, 2001.

Gain (Loss) on Sales of Loans:

During the three and six months ended June 30, 2002, the Corporation recorded net gains on the (i) sales of loans and (ii) changes in the fair values of derivative financial instruments and certain hedged items totaling $3.5 million and $7.0 million, respectively, compared to a net gain of $250,000 for the quarter ended June 30, 2002, and a net loss of $1.8 million for the six months ended June 30, 2002. During the three and six months ended June 30, 2002, loans totaling $541.1 million and $1.2 billion, respectively, were sold resulting in pre-tax gains of $4.0 million and $8.6 million. During the three and six months ended June 30, 2001, loans totaling $782.6 million and $1.4 billion, respectively, were sold resulting in pre-tax losses of $1.7 million and $4.2 million. Loans are typically originated by the mortgage banking operations and sold in the secondary market with loan servicing retained and without recourse to the Corporation.

The Corporation's derivative financial instruments (forward loan sales commitments and conforming commitments to originate loans) and certain hedged items (warehouse loans) are recorded at fair value with the changes in fair value reported in current earnings. For the three and six months ended June 30, 2002, the net changes in the fair values of these derivative financial instruments and certain hedged items resulted in net losses totaling $475,000 and $1.6 million, respectively. These changes in fair values compare to net gains totaling $2.0 million and $2.4 million, respectively, recorded for the three and six months ended June 30, 2001.

Real Estate Operations:

The Corporation recorded net losses from real estate operations totaling $2.2 million and $3.6 million, respectively, for the three and six months ended June 30, 2002 compared to net losses of $1.2 million and $1.7 million, respectively, for the three and six months ended June 30, 2001. Real estate operations reflect impairment losses for real estate, net real estate operating activity, and gains and losses on dispositions of real estate. The net increase in the loss for real estate operations for the three and six months ended June 30, 2002, compared to the 2001 periods is primarily due to an impairment loss totaling $1.9 million on a residential master planned community development in Nevada. The loss for the three month period is partially offset by a gain totaling $802,000 on the sale of a commercial construction property.

Other Operating Income:

Other operating income totaled $8.7 million and $16.4 million, respectively, for the three and six months ended June 30, 2002, compared to $8.2 million and $16.0 million, respectively, for the three and six months ended June 30, 2001. Miscellaneous mortgage loan income increased $971,000 and $2.4 million, respectively, for the three and six months ended June 30, 2002, compared to the 2001 periods due to an increase in fees on correspondent brokered loans. Partially offsetting this net increase for the six months ended June 30, 2002, compared to 2001 is a net decrease of $1.5 million due to net losses on the sales and write-downs of certain corporate fixed assets. Other components of other operating income are brokerage commissions, credit life and disability commissions and insurance commissions. These components totaled $4.4 million and $8.8 million, respectively, for the three and six months ended June 30, 2002, compared to $4.7 million and $9.2 million, respectively, for the 2001 periods. Brokerage commissions decreased $527,000 and $1.2 million, respectively, for the three and six months ended June 30, 2002, compared to the respective 2001 periods due to decreased volumes in customer transactions.

General and Administrative Expenses:

Total general and administrative expenses, excluding exit costs and termination benefits, approximated $61.9 million and $123.1 million, respectively, for the three and six months ended June 30, 2002, compared to $60.0 million and $119.9 million, respectively, for the three and six months ended June 30, 2001. The net increase in the 2002 second quarter compared to the prior year 2001 second quarter is primarily due to increases in compensation and benefits and advertising partially offset by lower expenses resulting from the reduction in branches and management's emphasis on tighter cost controls. Compensation and benefits increased $3.1 million in the three and six months ended June 30, 2002, over the 2001 second quarter and advertising increased $1.8 million comparing the same periods. The increase in compensation and benefits is primarily due to annual merit increases effective March 1, 2002, for certain employees and to other incentive production bonuses. The increase in advertising is for the expanded promotion of products relating to checking accounts and consumer loans.

The net increase for the six months ended June 30, 2002 compared to 2001 is also primarily due to increases in compensation and benefits and advertising partially offset by lower expenses due to the reduction in branches and management's emphasis on tighter cost controls. Compensation and benefits increased $5.1 million for the six months ended June 30, 2002, over 2001 and advertising increased $2.2 million over the same periods. The increase in compensation and benefits is primarily due to (i) the employer taxes paid on the management incentive plan bonuses paid on March 1, 2002, (ii) annual merit increases to all executives and managers and (iii) other incentive production bonuses. The increase in advertising is for the expanded promotion of products relating to checking accounts and consumer loans.

Exit Costs and Termination Benefits:

No gain or loss for exit costs and termination benefits was recorded for the three and six months ended June 30, 2002. The Corporation realized net gains for the three and six months ended June 30, 2001, totaling $4.0 million and $2.0 million, respectively. These net gains were from premiums received on the sale of branches ($4.1 million) partially offset by severance costs associated with right-sizing branch personnel and expenses to close branches ($131,000 for the year-ago quarter and $1.3 million for the six months ended June 30, 2001), as well as additional expenses totaling $754,000 to finalize the sale of the leasing portfolio.

Amortization of Core Value of Deposits and Goodwill:

For the three and six months ended June 30, 2002, amortization of core value of deposits totaled $1.6 million and $3.3 million, respectively, compared to $1.9 million and $3.9 million for the three and six months ended June 30, 2001. The net decreases in amortization expense for the three and six months ended June 30, 2002, compared to 2001 is primarily due to core value of deposits amortizing on an accelerated basis in earlier years.

Effective January 1, 2002, the Corporation adopted SFAS No. 142. Therefore, beginning in 2002, goodwill is no longer subject to amortization, but will be evaluated for impairment at least on an annual basis. During the quarter ended June 30, 2002, the Corporation completed its transitional impairment test on its goodwill as of January 1, 2002, as required by SFAS No. 142. No impairment loss was recognized as a result of this test. For calendar year 2002, goodwill totaling $7.8 million, or approximately $.16 per share, will not be amortized pursuant to SFAS No. 142. For the three and six months ended June 30, 2001, amortization of goodwill totaled $2.1 million and $4.2 million, respectively. See Note B "Implementation of SFAS No. 142 Goodwill and Intangible Assets" in the Notes to Condensed Consolidated Financial Statements for additional information.

Provision for Income Taxes:

The provision for income taxes totaled $11.5 million and $22.9 million, respectively, for the three and six months ended June 30, 2002, compared to $11.8 million and $21.7 million, respectively, for the three and six months ended June 30, 2001. The effective income tax rates for the three and six months ended June 30, 2002, were 29.5% and 29.2%, respectively, compared to 30.9% for both the three and six months ended June 30, 2001. The effective income tax rates are lower for the current quarter and six months compared to the respective 2001 periods due to the cessation of goodwill amortization effective January 1, 2002, and to an increase in tax-exempt interest income and tax credits. The effective tax rates for the three and six months ended June 30, 2002 and 2001, vary from the statutory rate primarily due to tax benefits from the bank owned life insurance, tax-exempt interest income and tax credits.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information as of June 30, 2002, concerning the Corporation's exposure to market risk, which has remained relatively unchanged from December 31, 2001, is incorporated by reference under Item 7A "Quantitative and Qualitative Disclosures About Market Risk" in the Corporation's Annual Report on Form 10-K for the Corporation's year ended December 31, 2001.

PART II. OTHER INFORMATION

Item 5. Other Information

On May 13, 2002, the Corporation's Board of Directors approved an increase to the Corporation's quarterly cash dividend to $.09 per common share from $.08 per common share. The new dividend rate of $.09 per common share was on July 11, 2002, to stockholders of record as of June 27, 2002.

The Corporation held its Annual Meeting of Stockholders on May 14, 2002, in Omaha, Nebraska. The inspector of election issued his certified final report on May 14, 2002, for the election of directors and approval of the 2002 Stock Option and Incentive Plan voted upon at such Annual Meeting. The proposals voted upon at the Annual Meeting were for the election of Mr. Hutchinson as director for a two year term and Messrs. Fitzgerald, Taylor and Tesi as directors for three year terms, and the approval of the Corporation's 2002 Stock Option and Incentive Plan. Mr. Hutchinson was re-elected for a term to expire in 2004, and Messrs. Fitzgerald, Taylor and Tesi were re-elected for terms to expire in 2005. The 2002 Stock Option and Incentive Plan was also approved. The Corporation disclosed all information required by Item 4 in its Form 10-Q for the quarterly period ended March 31, 2002, and incorporates such filing by reference herein.

Item 6. Exhibits and Reports on Form 8-K

(a). Exhibits:

99.1 - Chief Executive Officer's Certificate Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 - Chief Financial Officer's Certificate Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b). Reports on Form 8-K:

No reports on Form 8-K were filed during the three months ended June 30, 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMMERCIAL FEDERAL CORPORATION
(Registrant)

Date: August 14, 2002

/s/ David S. Fisher
David S. Fisher, Executive Vice President
and Chief Financial Officer
(Principal Financial Officer)

Date: August 14, 2002

/s/ Gary L. Matter
Gary L. Matter, Senior Vice President,
Controller and Secretary
(Principal Accounting Officer)

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